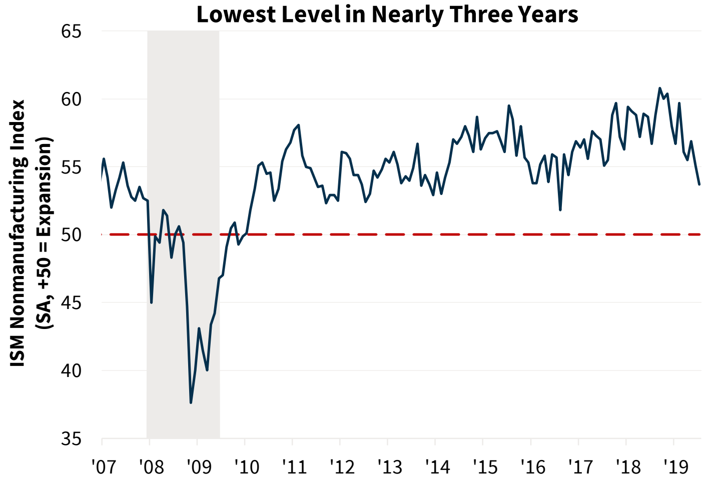
Economics: Service Sector Activity Slows

Economic data this week were largely weak as service sector activity slowed, job openings declined, and inflation remained muted. According to the ISM Nonmanufacturing Index, service sector activity expanded by the slowest pace in nearly three years in July. Both the business activity index and the new orders index fell, outweighing a slight rise in the employment index. Though the index still shows expansion in the service sector, the 3-month moving average has steadily declined since November 2018. Turning to prices, the Producer Price Index (PPI) for final demand rose in July while core PPI (excludes food, energy, and trade services) fell for the first time since October 2015. From a year ago, headline PPI increased at the same pace as in June, while core PPI growth decelerated to the slowest pace in over two years. The July PPI release underscores the current lack of inflationary pressures and supports many Fed members' comments that low inflation is becoming a persistent issue. Though we believe this report will have little to no effect on monetary policy decisions, sustained weakness in core PPI could compound with weakness elsewhere to influence a decision. According to the Job Openings and Labor Turnover Survey, job openings fell in June and in the second quarter. Total hires also declined in June for the second month in a row, though they remained above total separations, leading to a net employment gain of 221,000 in June. The decline in job openings and hires over the month are not anomalies; after increasing steadily through 2017 and most of 2018 the 6-month moving average for both job openings and hires shows a leveling off over the past year. The quits rate was unchanged at the expansion high for the twelfth month in a row, suggesting continued confidence in the labor market. Meanwhile, consumer non-mortgage credit increased in June, though at a slower rate than in May. Growth in consumer credit was driven entirely by nonrevolving credit (largely student and auto loans), while revolving credit (largely credit card debt) edged down slightly. On a quarterly basis, both revolving and nonrevolving credit increased in the second quarter. Finally, initial unemployment claims fell last week as the labor market continues to be a source of strength in the economy, shrugging off trade tensions and worries over domestic growth.

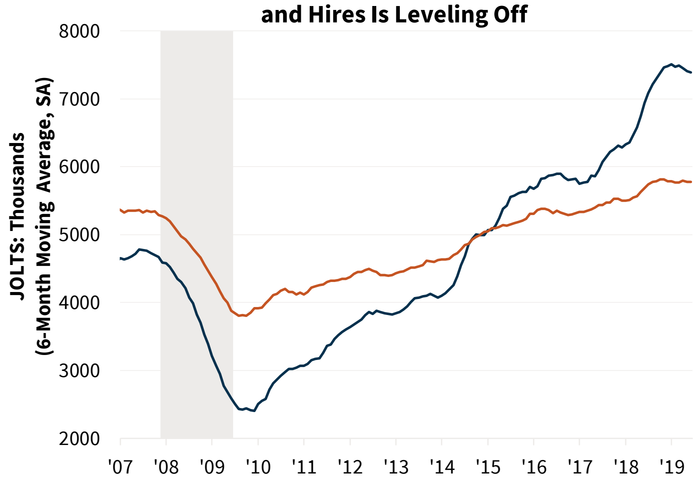
- **The ISM Nonmanufacturing Index**, a gauge of service sector activity, fell 1.4 points in July to 53.7 (any reading above 50 indicates expansion). The business activity index fell 5.1 points to 53.1, and the new orders index fell 1.7 points to 54.1. The employment index rose 1.2 points to 56.2.
- **The Producer Price Index** for final demand of goods and services rose 0.2 percent in July, while core PPI fell 0.1 percent. From a year ago, both PPI and core PPI rose 1.7 percent (not seasonally adjusted).
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that job openings fell by 36,000 to 7.35 million in June, according to the Bureau of Labor Statistics. From a year ago, job openings fell 0.6 percent, the first annual decline in two years. Total hires fell by 58,000 to 5.7 million and total separations declined by 76,000 to 5.5 million. Both the job openings rate and separations rate fell one-tenth to 4.6 percent and 3.6 percent, respectively. The hires rate and quits rate were unchanged at 3.8 percent and 2.3 percent, respectively.
- **Consumer (non-mortgage) credit outstanding** grew $14.6 billion in June to $4.1 trillion, according to the Federal Reserve Board. Revolving credit fell by $80.4 million and nonrevolving credit rose $14.7 billion. From a year ago, revolving credit rose 4.8 percent and nonrevolving credit rose 5.6 percent.
- **Initial claims for unemployment insurance** fell by 8,000 to 209,000 in the week ending August 3, according to the Department of Labor. The four-week moving average edged up by 250 to 212,250.

The ISM Nonmanufacturing Index Drops to the Lowest Level in Nearly Three Years



Source: Institute for Supply Management

Growth of Job Openings and Hires Is Leveling Off



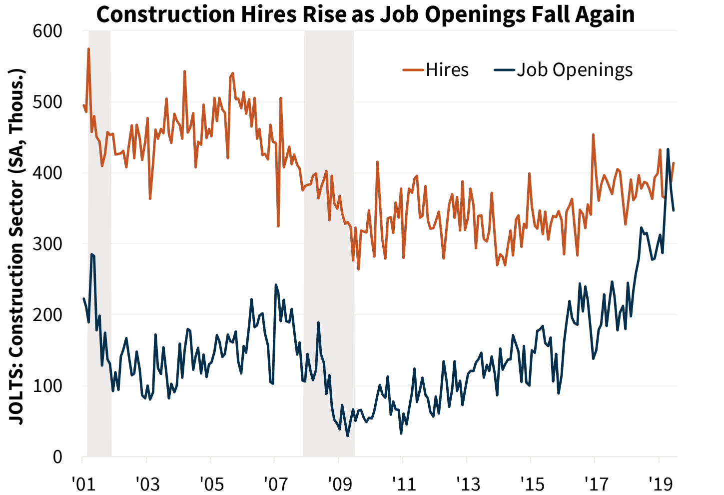
Source: Bureau of Labor Statistics

Housing: Mortgage Demand Jumps to Seven-Year High

This week in housing news there were updates to construction job openings, lending standards, mortgage demand, and home price growth. According to the Job Openings and Labor Turnover Survey, construction job openings fell in June for the second month in a row, though they remained at a historically elevated level. Construction hires jumped in June, nearly erasing the downturn seen in May and rose on a quarterly basis for the sixth consecutive quarter. The construction quits rate posted the fastest pace in nearly a year, and the total number of quits rose to the highest level since July 2007. The recovery in construction hires over the month was a positive for homebuilding, but the level remains well below the average seen in the prior expansion and we do not expect any substantial relief to the current constraints on housing supply that many homebuilders attribute to the cost and lack of labor. The Federal Reserve Board's Senior Loan Officer Opinion Survey showed easing lending standards for residential mortgages in the three months ending in July, while standards for commercial real estate tightened. The Fed survey also showed the largest net share of banks reporting higher residential mortgage demand in seven years, which is likely attributable to the plunge in mortgage rates this year. The average rate on 30-year, fixed-rate mortgages fell 15 basis points this week to 3.60 percent, according to Freddie Mac, putting mortgage rates at the lowest level since November 2016 and down almost a full percentage point from a year ago. Though the recent drop in mortgage rates improves affordability, the decline was fueled by a downturn in financial conditions due to an escalation in the U.S-China trade war. Uncertainty over domestic growth and trade may weigh on homebuying sentiment despite the fall in rates. The CoreLogic National House Price Index showed that annual price growth was unchanged in June. On a quarterly basis, home price growth decelerated for the fourth consecutive quarter in the second quarter. Despite the deceleration, home prices remain elevated and, as the supply of affordable housing continues to shrink, will likely continue to weigh on the responsiveness of homebuyers to declining rates. Finally, mortgage applications rose last week as a surge in refinance applications to the highest level since November 2016 outweighed a decrease in purchase applications, which have fallen for the last four weeks.

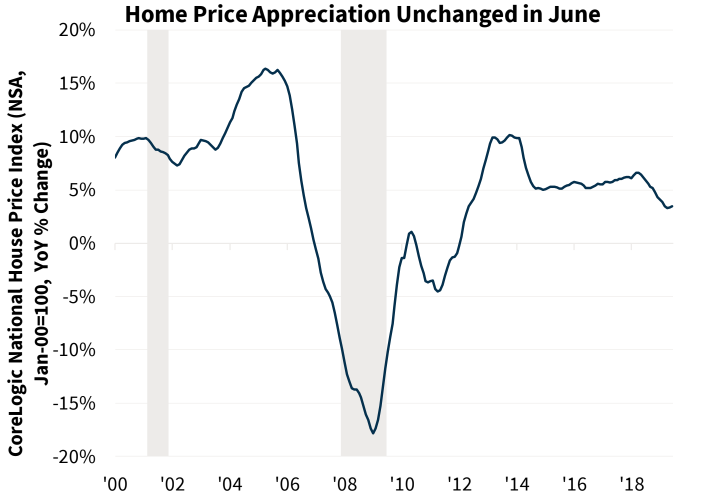
- **The Job Openings and Labor Turnover Survey** showed that construction job openings fell by 29,000 to 347,000 in June, according to the Bureau of Labor Statistics. Construction hires rose by 27,000 to 414,000. The job openings rate fell four-tenths to 4.4 percent, while both the hires and separations rates rose three-tenths to 5.5 percent. The quits rate rose five-tenths to 2.7 percent.
- **The Federal Reserve Board Senior Loan Officer Opinion Survey** in the three months ending in July showed a modest net easing in lending standards for residential mortgage loans for all residential loan categories other than those which are GSE-eligible. Banks reported a significant jump in demand across all categories. Standards on commercial real estate loans tightened further as demand for commercial real estate loans fell.
- **The CoreLogic National House Price Index**, a repeat sales measure, rose 0.4 percent in June (not seasonally adjusted). From a year ago, prices rose 3.4 percent. On a quarterly basis, home prices rose 3.4 percent over the second quarter.
- **Mortgage applications** rose 5.3 percent in the week ending August 2, according to the Mortgage Bankers Association. Refinance applications jumped 11.8 percent, while purchase applications fell 2.0 percent to the lowest level in five months.

Construction Hires Rise as Job Openings Fall Again



Source: Bureau of Labor Statistics

Home Price Appreciation Unchanged in June



Source: CoreLogic

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